Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Smyth, et al.	Analyst:	Matthew Cooling	Bill Number:	AB 233
Related Bills:	See Prior Analysis	Telephone:	845-5983	Amended Date:	April 13, 2009
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Pet Adoption Costs Deduction

__X__ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 5, 2009.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ____________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 5, 2009, STILL APPLIES.

_____ OTHER – See comments below.

SUMMARY

This bill would allow taxpayers a miscellaneous itemized deduction, up to $100 per taxable year, for the qualified costs paid or incurred for the adoption of pets from a qualified animal rescue organization.

SUMMARY OF AMENDMENTS

The April 13, 2009, amendments do the following:

- Changed the amount of costs a taxpayer could deduct for adopting a pet,
- Added provisions that would allow this deduction to not be subject to the 2 percent floor rule generally applicable to miscellaneous itemized deductions,
- Clarified the definitions of a “pet,”
- Revised the definition of a “qualified animal rescue organization,”
- Defined the “qualified costs” for adopting a pet, and
- Added coauthors to the bill.

Board Position:			Asst. Legislative Director	Date
_______ S	_______ NA	_______ NP		
_______ SA	_______ O	_______ NAR	Patrice Gau-Johnson	4/16/09
_______ N	_______ OUA	___X___ PENDING		

As a result of the amendments, the “This Bill” and “Economic Impact” discussions have been revised and are provided below. This bill, as amended, would resolve the department’s implementation considerations. Except for the revisions discussed, the department’s previous analysis of the bill as introduced February 5, 2009, continues to apply.

POSITION

Pending.

ANALYSIS

THIS BILL

Under the Personal Income Tax Law (PITL), this bill would allow a taxpayer to deduct the expenses paid or incurred to adopt an animal from a qualified animal rescue organization as a miscellaneous itemized deduction not subject to the 2 percent of adjusted gross income limitation on such deductions.

This bill would define a “pet” as any animal adopted from a qualified animal rescue organization that is not used for the production of income or in a taxpayer’s trade or business. This bill would also clarify that a “qualified animal rescue organization” would mean a public animal control agency or shelter, a humane society shelter, or rescue group.

For purposes of this bill, a rescue group would be a non-profit group under Internal Revenue Code (IRC) section 501(c)(3) whose primary purpose is to rescue and place dogs, cats, or other animals removed from a public animal control agency or shelter or that have been surrendered or relinquished by a previous owner.

The maximum deduction allowed by this bill would be $100 for each taxable year, beginning on or after January 1, 2010, and before January 1, 2015. This bill would also limit the deduction associated with any one adoption to $100 per pet. This bill would allow a taxpayer who adopts two pets in one year to deduct the fees paid or incurred, in excess of $100, in the following years.

TECHNICAL CONSIDERATION

Amendment 1 has been provided to clarify the limitation on pet adoption fees.

ECONOMIC IMPACT

Revenue Estimate

This bill, as amended, would result in the following revenue loss:

Estimated Revenue Impact of AB 233 Effective For Taxable Years Beginning On or After January 1, 2010 And Before January 1, 2015 Enactment Assumed After June 30, 2009 ($ in Millions)					
2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
-$0.2	-$1.0	-$1.2	-$1.3	-$1.3	-$0.6

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The revenue impact of this bill would depend on the number of qualifying taxpayers who adopt a cat, dog or other animal that has been removed from a qualified animal rescue organization, claim itemized deductions, which would not be subject to the 2 percent of adjusted gross income limitation, on their tax returns, and derive a deduction benefit from adoption costs.

For purposes of this analysis, only cats and dogs were included as pets. Though there are numerous resources for those wishing to adopt a pet, there are little reliable data on the number of pet adoptions. This estimate assumes that the deduction would be claimed in the taxable year in which the expenses are paid or incurred.

California specific data from the National Animal Interest Alliance indicate that approximately 68,000 cats and 100,000 dogs from shelters were placed in homes in 2007. The total of 168,000 cats and dogs was doubled to include pets adopted from qualifying IRC section 501(c)(3) organizations for a 2007 figure of 336,000 pets (168,000 X 2). Data from the American Veterinary Medical Association gives an annual pet growth rate of approximately 1 percent annually. The 336,000 figure for pets was increased by 1 percent annually to approximately 345,000 by 2010.

Tax return data indicate approximately 4.4 million taxpayers report itemized deductions and derive a deduction benefit. Assuming 5 percent of these taxpayers, or approximately 220,000 (4.4 million taxpayers X 5 %), would adopt a pet, deductible adoption costs are $22 million (220,000 taxpayers X $100 deduction limit). Applying a marginal tax rate of 6.25 percent results in an annual revenue loss of approximately $1.4 million for 2010 ($22 million X 6.25 %). Beginning with 2011, the marginal tax rate is 6 percent, and results in a revenue loss of approximately $1.3 million ($22 million X 6%).

Because this would be a new deduction, a “learning curve” would be applied. The losses would be reduced by applying a rate at which the taxpayers entitled to the deductions would report it on their personal income tax return. The assumed reporting rate is 60 percent in 2010, increasing to 95 percent in 2013. Therefore, the 2010 impact would be 60 percent of $1.4 million or $840,000, and 95 percent of $1.3 million is approximately $1.2 million in 2013.

Taxable year estimates were converted to fiscal year cash flow estimates in the table.

LEGISLATIVE STAFF CONTACT

Legislative Analyst
Matthew Cooling
(916) 845-5983
matthew.cooling@ftb.ca.gov

Revenue Director
Jay Chamberlain
(916) 845-3375
jay chamberlain@ftb.ca.gov

Asst. Legislative Director
Patrice Gau-Johnson
(916) 845-5521
patrice.gau-johnson@ftb.ca.gov

Analyst Matthew Cooling
Telephone # 845-5983
Attorney Patrick Kusiak

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 233
As Amended April 13, 2009

AMENDMENT 1

On page 2, line 20, after "incurred" insert:

during the taxable year